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SUBJECT: LATVIAN INFLATION UP TO 13.2%

¶1. According to figures released on November 8 by the Latvian Central Statistical Bureau (CSB), the annual inflation rate in Latvia hit 13.2% in October. This marks the highest rate in Latvia since 1996, and consumer prices are widely expected to continue rising until mid 2008. Increases in utility service costs (which include heating and electricity) and food prices were by far the largest contributors to the inflation rate, accounting for 70% of the observed inflation.

¶2. Comment: The rise in food prices, which have increased over 17% on an annual basis, has gained special attention in the press and has become a factor in wage demands. One recent article from a Nordea Bank commentator lamented that local food prices appear to have surpassed US prices, in spite of Latvia's lower income levels. Though Latvian wages have increased greatly in recent years, average incomes are still only about a quarter of those in the US (roughly \$40,123 annually in the US as of June 2006, versus \$10,525 in Latvia).

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